University of Regina

University of Regina Master Trust

Financial Statements

For the Year Ended December 31, 2011

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

SASKATCHEWAN

Phone: (306) 787-6398
Fax: (306) 787-6383
Web site: www.auditor.sk.ca
Internet e-mail: info@auditor.sk.ca

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the University of Regina Master Trust, which comprise the statement of net assets as at December 31, 2011, and the statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets of the University of Regina Master Trust as at December 31, 2011, and the results of its operations and changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Bonnie Lysyk

Regina, Saskatchewan
May 8, 2012

Bonnie Lysyk, MBA, CA
Provincial Auditor

University of Regina Master Trust
Statement of Net Assets
As at December 31

	2011	2010
Assets		
Investments (Notes 1(a), 5 & 8):		
Short-term investments	$ 7,709,682	$ 5,654,672
Bonds and debentures	85,987,822	104,506,436
Equities	145,311,918	190,263,584
Mortgages	6,349,347	7,765,652
Real estate	24,272,185	23,766,928
	269,630,954	331,957,272
Investment income receivable	603,133	572,564
Cash	45,280	36,154
	$ 270,279,367	$ 332,565,990
Liabilities	-	-
Net Assets	$ 270,279,367	$ 332,565,990
Unitholders' Equity (Note 4)		
Academic & Administrative Employees' Pension Plan	$ 205,889,005	$ 268,654,643
Non-Academic Employees' Pension Plan	64,390,362	63,911,347
	$ 270,279,367	$ 332,565,990
Net Asset Value Per Unit	$ 30.44	$ 29.75

Approved by the Board of Governors

Chair, Board of Governors

Vice President (Administration)

The accompanying notes are an integral part of these financial statements

University of Regina Master Trust
Statement of Operations and Changes in Net Assets
For the Year Ended December 31

	2011	2010
Investment Income		
Interest	$ 5,559,700	$ 5,274,821
Dividends	4,750,860	4,782,233
Real estate	568,218	1,069,369
Net realized gain on sale of investments (Note 6)	4,216,558	3,352,508
Net unrealized (loss) gain on investments	(6,495,272)	10,859,419
	8,600,064	25,338,350
Expense		
Trustee fees	9,267	492
Net income	8,590,797	25,337,858
Value of Master Trust units issued (Note 3c and Note 4)	499,982	505,911
Payments on redemption of Master Trust units (Note 3c and Note 4)	(71,377,403)	(6,318,579)
Decrease in Net Assets	(62,286,624)	19,525,190
Net Assets, Beginning of Year	332,565,990	313,040,800
Net Assets, End of Year	$ 270,279,366	$ 332,565,990

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

On November 30, 1995, the University of Regina entered into an agreement with a trustee. This agreement creates a single common fund, called the Master Trust.

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) Investments

Investments in bonds and equities are recorded at fair values which are determined by reference to closing year end quoted bid prices from recognized security dealers.

Short-term investments are recorded at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Investments in real estate are recorded at fair values using market values from independent appraisals.

Investments in mortgages are recorded at their net present value by discounting stated rates of return to current market rates of return which approximates fair values.

Pooled funds are recorded at fair value based on the net asset value per unit of the underlying investments on the last valuation date.

The change in the fair value of investments during the year is reflected on the Statement of Operations and Changes in Net Assets as net unrealized gain on investments.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investment transactions and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the change in fair value of investments.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded as of the trade date.

b) Receivables/Payables

These financial instruments are non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value.

c) Use of estimates

In preparing the financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities. Significant estimates are used primarily in the determination of the fair value of investments and investment related receivables and liabilities. Actual results could differ from those estimates, which may impact the results reported in future periods.

2. Master Trust Administration

Under the Master Trust Agreement, the trustee agrees to hold, invest, administer and distribute the assets of the Master Trust in accordance with the provisions of the agreement.

The functions of custody and execution of investment transactions for the Master Trust have been segregated. The University of Regina has appointed several investment managers to provide investment instructions to the trustee. Under the agreement with the trustee, the trustee maintains custody of the Master Trust assets, but may only invest the Master Trust assets as authorized by the investment managers.

3. Description of the Master Trust

The following description of the Master Trust is a summary only. The Master Trust is a segregated pooled fund. For more information, reference should be made to the Master Trust Agreement.

a) General

On December 1, 1995, the investment portfolios of the University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans were combined into a Master Trust to improve investing opportunities. Each plan holds units in the Master Trust rather than holding individual assets.

b) Initial Allocation of Units

Upon the establishment of the Master Trust, the trustee divided the Master Trust into original units with a value of $10 each. The University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans received units of the Master Trust based on this original unit value in proportion to the market value at December 1, 1995, of the assets transferred into the Master Trust on this date.

c) Issuance and Redemption of Units

The Master Trust issues additional units to the Pension Plans when assets are transferred from the Plans, or at month end when net income is distributed to the Plans. Units are distributed on the last business day of the trustee's head office in the month or any other day as the trustee in its sole discretion may determine.

Units in the Master Trust are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the underlying investments divided by the total number of units outstanding.

Units of the Master Trust may be redeemed by a pension plan at the net asset value per unit.

Effective July 1, 2011, investments of the Defined Contribution (DC) portion of the Pension Plan for the Academic and Administrative Employees of the University of Regina are held by Sun Life Financial and are directed by the DC participants. To facilitate the transition to Sun Life Financial, units of the Master Trust related to the DC portion were redeemed and proceeds of $65,901,273 were transferred to Sun Life Financial.

4. Unitholders' Equity

The number of units issued and redeemed during the year were as follows:

	2011	2010
Balance, beginning of year	11,177,503.209	11,386,334.967
Issued during the year	16,255.702	18,378.346
Redeemed during the year	(2,315,486.582)	(227,210.104)
Balance, end of year	8,878,272.329	11,177,503.209

The number of units held by participating pension plans at the end of the year were as follows:

	2011	2010
Academic & Administrative Employees	6,763,145.407	9,029,450.474
Non-Academic Employees	2,115,126.922	2,148,052.735
Balance, end of year	8,878,272.329	11,177,503.209

5. Financial Risk Management

Based on the investment objectives set by the participating pension plans, the Master Trust invests cash flows from the pension plans. The nature of the Master Trust's operations results in a statement of net assets that consists primarily of financial instruments. The risks that arise are market risk, (consisting of interest rate risk, foreign exchange risk and equity price risk), credit risk and liquidity risk.

Significant financial risks are related to the investments. These financial risks are managed by having an investment policy, which is approved by the Board of Governors. The investment policy provides guidelines to the Master Trust's investment managers for the asset mix of the portfolio regarding the quality and quantity of fixed income investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in

different asset classes and in domestic and foreign markets. Derivatives (such as options, futures, and forward contracts) are allowed within the Master Trust to protect against losses from changes in exchange rates and market indices; and for non-hedging purposes, as a substitute for direct investment. The investment policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage.

a) Market Risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest Rate Risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Master Trust's cash flows, financial position and income. This risk arises from short-term changes in nominal interest rates that cause differences in the timing and amount of cash flows related to the investments. Interest rate risk is managed by investing in fixed income investments (short-term investments, bonds and debentures, mortgages) of various durations. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase the value of the fixed income investments by $6,100,000 at December 31, 2011, representing 6.11% of the $100,046,851 fair value of these investments.

Foreign Exchange:

The Master Trust is subject to changes in the US/Canadian dollar exchange rate for US denominated investments. Also, the Master Trust is exposed to EAFE (Europe, Australasia and Far East) currencies and global currencies (including US, Non-North American and Canadian) through its investment in the pooled Non-North American (NNA) equity fund and pooled global equity fund. Exposure to US equities, Non-North American equities, and global equities is limited to a maximum 16%, 18%, and 12% respectively each of the total of the fair value of the total investment portfolio. At December 31, 2011 the Master Trust's exposure to US equities was 15.6% (2010 – 15.5%) and its exposure to Non-North American equities (including global equities) was 21.8% (2010 – 23.7%).

At December 31, 2011, a 10% appreciation in the Canadian dollar versus US dollar exchange rate would result in approximately a $4,200,000 decrease in investments. A 10% weakening in the Canadian dollar versus EAFE currencies would result in approximately a $5,900,000 increase in investments.

No more than 10% of the fair value of the bond and debentures portfolio shall be invested in bonds of foreign issuers.

Equity Prices:

	Market Value	
	2011	2010
Common Shares and Pooled Funds – Canadian	$ 44,118,668	$ 59,761,218
Pooled Funds – Global	23,780,355	29,876,623
Pooled Funds – NNA	35,150,395	49,017,268
Pooled Funds – US	42,261,915	51,608,475
	$ 145,311,333	$ 190,263,584

The Master Trust is exposed to changes in equity prices in Canadian, US, and EAFE markets. Equities, including equity pooled funds, comprise 53.89% (2010 – 57.31%) of the fair value of the Master Trust's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the fair value of the Master Trust's total investment portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation. Investments in pooled funds do not exceed 10% of the fair value of that fund.

The following table indicates the approximate change that would be expected to the total investment portfolio based on changes in the Master Trust's benchmark indices:

	2011		2010	
	10% increase	10% decrease	10% increase	10% decrease
Canadian Equities	$ 4,400,000	$ (4,400,000)	$ 6,000,000	$ (6,000,000)
US Equities	$ 4,200,000	$ (4,200,000)	$ 5,200,000	$ (5,200,000)
NNA Equities	$ 3,500,000	$ (3,500,000)	$ 4,900,000	$ (4,900,000)
Global Equities	$ 2,400,000	$ (2,400,000)	$ 3,000,000	$ (3,000,000)

b) Credit Risk

Credit risk arises from the potential for an investee to fail or for a counterparty (e.g. mortgager) to default on its contractual obligations to the Master Trust.

The Master Trust's maximum exposure to credit risk at the reporting date is limited to the carrying value of its financial assets, summarized as follows:

	2011	2010
Cash	$ 45,280	$ 36,154
Investment income receivable	603,133	572,564
Short-term investments	7,709,682	5,654,672
Bonds and debentures	85,987,822	104,506,436
Mortgages	6,349,347	7,765,652
	$ 100,695,264	$ 118,535,478

The Master Trust limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe the investments below are based on the Dominion Bond Rating Service and/or the Standard and Poor's Bond Rating Service.

Short-Term Investments

These investments are comprised of a pooled fund that holds investments mainly in corporate bonds and debentures with effective interest rates of 1.088% to 1.381% (2010 - 1.076% to 1.401%) and maturing within 4 to 136 days (2010 - 4 to 101 days). The investment policies of the participating pension plans state that investments must meet a minimum investment standard of "R-1", as rated by a recognized credit rating service.

Bonds and Debentures

The investment policies of the participating pension plans state that the minimum quality standard for individual bonds and debentures is 'B' as rated by a recognized bond rating agency at the time of purchase, and sets limits to the maximum notational amount of exposure with respect to any one issuer. Bonds rated 'BBB', 'BB' and 'B' may not be purchased if the purchase would raise holdings rated 'BBB' to 'B' inclusive to more than 15% of the fair value of the bond portfolio, with bonds rated below 'BBB' not to exceed 5% of the fair value of the bond portfolio at the time of purchase.

The Master Trust holds the following investments in bonds and debentures:

2011

Years to Maturity	Federal	Provincial	Pooled Funds	Total Fair Value	Yield to Maturity At Fair Value	Coupon Rate
Under 5	$ 3,745,830	$ -	$ 51,540,609	$ 55,286,439	1.11% - 2.06%	3.24% - 4.80%
5 - 10	3,230,576	735,135	242,013	4,207,724	1.94% - 3.04%	3.25% - 4.35%
Over 10	578,261	25,668,296	247,102	26,493,659	2.49% - 4.00%	4.00% - 8.50%
Total	$ 7,554,667	$ 26,403,431	$ 52,029,724	$ 85,987,822		

2010

Years to Maturity	Federal	Provincial	Pooled Funds	Total Fair Value	Yield to Maturity At Fair Value	Coupon Rate
Under 5	$ 3,719,593	$ -	$ 60,622,561	$ 64,342,154	1.15% - 2.41%	3.00% - 4.05%
5 - 10	5,422,472	8,492,032	-	13,914,504	3.01% - 4.05%	3.75% - 4.40%
Over 10	1,668,834	24,580,944	-	26,249,778	3.56% - 5.01%	4.60% - 8.50%
Total	$ 10,810,899	$ 33,072,976	$ 60,622,561	$ 104,506,436		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Credit ratings for bonds are as follows:

	2011		2010	
Credit Rating	Fair Value	Make up of Portfolio (%)	Fair Value	Make up of Portfolio (%)
AAA	$ 16,864,202	19.61%	$ 15,952,597	15.27%
AA	40,689,790	47.32%	53,812,113	51.49%
A	14,903,249	17.33%	24,422,013	23.37%
BBB	11,275,484	13.11%	8,698,516	8.32%
BB	1,372,668	1.60%	1,060,533	1.01%
B & Below	882,429	1.03%	560,664	0.54%
Total	$ 85,987,822	100.00%	$ 104,506,436	100.00%

Within bond investments there are no direct holdings other than the Government of Canada or a Canadian province. No one holding of a province is over 26.90% of the fair value of the bond portfolio. Securities of the Master Trust may not be loaned except within pooled funds where the pooled fund policy permits securities lending.

Fair Value

The Plan has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

2011	Level 1	Level 2	Level 3	Total
Short-term investments	$ 7,709,682	$ -	$ -	$ 7,709,682
Bonds and Debentures	-	85,987,822	-	85,987,822
Equities	145,311,918	-	-	145,311,918
Mortgages	-	6,349,347	-	6,349,347
Real estate	-	24,272,185	-	24,272,185
Total	$ 153,021,600	$ 116,609,354	$ -	$ 269,630,954

Real Estate

The Master Trust holds $ 24,272,185 (2010 - $ 23,766,928) in real estate. This represents 9.00% (2010 – 7.16%) of total investments. The investments in real estate consist of Canadian commercial property.

Mortgages

The investment policies of the participating pension plans state the investments in mortgage can be mortgages secured against Canadian real estate, mortgage-backed securities, or asset-backed securities.

c) Liquidity Risk

Liquidity risk is the risk that the Master Trust is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

6. Net Realized Gain on Sale of Assets

	2011	2010
Proceeds from sale of investments	$ 215,793,508	$ 182,201,958
Return of capital on investments	870,135	2,350,161
	216,663,643	184,552,119
Cost of investments sold:		
Investments at cost, beginning of period	327,325,469	318,493,871
Cost of investments purchased	156,616,035	190,031,209
	483,941,504	508,525,080
Investments at cost, end of period	(271,494,419)	(327,325,469)
	212,447,085	181,199,611
Net realized gain on sale of investments	$ 4,216,558	$ 3,352,508

7. Related Parties

The Master Trust is related to the University of Regina and the pension plans sponsored by the University.

All administrative expenses of the Master Trust are paid by the two major participating pension plans.

8. Investment Performance

The University has retained Phillips, Hager & North Ltd. as investment manager of the majority of the investments in the Master Trust. The University also contracts with Franklin Templeton Investments, Bentall Kennedy, BlackRock Asset Management Canada Limited, Mawer Investment Management Ltd., and Grantham, Mayo Van Otterloo & Co. LLC to be investment managers of specific types of investments in the Master Trust.

These investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the joint Academic and Administrative and Non-Academic Benefits Committee. It is these long-term investment performance objectives that are used to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire Master Trust portfolio is to out-perform a benchmark portfolio with weightings as follows:

Asset Class	Representative Index	Weight
Canadian equities	S&P/TSX Composite Index	16 %
U.S. equities	S&P 500 Index (Cdn $)	7
U.S. equities	S&P 500 Index - Hedged	7
Non-North American equities	MSCI EAFE Index (Cdn $)	15
Global equities	MSCI World Index (Cdn $)	10
Real Estate	Investment Property Databank	10
Bonds	DEX Universe Bond Index	33
Short-term investments	91-day T-Bills	2
		100 %

The University engages the services of AON Hewitt, asset management consultants, to provide advice on the overall management of the Master Trust's investments and on the measurement of the Trust's performance. AON Hewitt reports to the joint Academic and Administrative and Non-Academic Benefits Committee quarterly on the investment performance against benchmarks over moving four-year periods.

The one year investment objective (the return of the benchmark portfolio) was 1.2% (2010 – 8.7%). For the year ending December 31, 2011, the Master Trust had a gross rate of return of 2.5% (2010 – 8.2%). For the four years ending December 31, 2011, the Master Trust had a gross rate of return of 2.1% (2010 – 2.1%) and benchmark return of 1.4% (2010 – 1.7%).